

## **MJD COMMUNICATIONS, INC. AND SUBSIDIARIES**

### **Notes to Consolidated Financial Statements (Continued)**

**December 31, 1999, 1998, and 1997**

#### **(9) Warrants**

In connection with the issuance of subordinated notes in 1994, the Company issued detachable warrants to purchase 10,000 shares of STE's common stock at the stated par value of \$.01 per share. In conjunction with the retirement of the subordinated notes in 1997, MJD required STE to issue additional warrants to purchase 2,857 shares of STE's common stock. This noncash transaction was recognized as part of the loss on the early retirement of debt in 1998 as described in note 10. The agreement stipulates that the put/call price of the warrants should equal STE's net equity, as defined in the agreement, multiplied by the ratio of exercisable warrants to the number of shares of common stock outstanding on a fully-diluted basis on the date of the put or call.

The Company recorded the obligation for the warrants based on the fair value of STE's common stock as determined by management, at the issuance date of the warrants. At each balance sheet date, the warrants were valued utilizing cash flow models that management also uses in valuing potential acquisitions. Those models estimate fair value using earnings before interest, taxes, depreciation, and amortization (EBITDA), and multiples of EBITDA for recent acquisitions of similar companies. The increase or decrease in fair value of the obligation for the warrants is recognized in earnings as interest expense. In December 1999, the Company purchased the STE warrants for \$17.5 million. The increase in the value of the STE obligation during 1999 was \$13.3 million.

In addition, the Company previously issued warrants to purchase 7.69 shares, representing 7.14% of Sidney's common stock. The Company estimated the fair value of the warrants at the date of issuance and included the fair value in the initial allocation of purchase price for Sidney's common stock, with the related value of the warrants issued to minority shareholders included in the obligation for minority interests. In December 1999, the Company purchased the Sidney warrants for \$0.5 million. The excess \$0.4 million associated with the Sidney warrants was accounted for as an acquisition of minority interest and an increase to goodwill.

#### **(10) Stockholders' Equity and Recapitalization**

Effective July 31, 1997, a recapitalization of the Company was completed. The Company issued 8,846,720 shares of its Class A common stock to unrelated third parties and members of management for proceeds of approximately \$15.1 million (net of offering expenses of \$925,602). These proceeds, together with additional borrowings of \$39.2 million from CoBank and the issuance of subordinated promissory notes in the amount of \$3.5 million, were utilized to repurchase and retire the remaining Series A preferred stock, all shares of Series C preferred stock not owned by members of management, and all the warrants and contingent warrants (the Warrants) to purchase the Company's Class A common stock not owned by members of management for approximately \$35.0 million. The difference between the carrying value of the Series A and Series C preferred stock, and the Warrants and the price at which the stock was repurchased and retired (\$24.5 million), was charged to retained earnings as it represents a return to the preferred shareholders. In conjunction with the recapitalization, STE also retired the subordinated notes payable of \$11,562,133. As a result of retiring the subordinated debt of STE, the Company recognized an extraordinary loss of approximately \$3.6 million (net of taxes of \$2.3 million), consisting of prepayment penalties of approximately \$4.0 million, the write-off of existing deferred financing costs of approximately \$1.1 million, and the issuance of additional put warrants valued at \$750,000. The additional put warrants were issued to the holders of the STE warrants and debt in consideration of their consent to retire the STE debt (see also note 9).

## **MJD COMMUNICATIONS, INC. AND SUBSIDIARIES**

### **Notes to Consolidated Financial Statements (Continued)**

**December 31, 1999, 1998, and 1997**

#### **(10) Stockholders' Equity and Recapitalization (Continued)**

In connection with the recapitalization of the Company, two of the Company's shareholders entered into shareholder agreements with the Company and its founding shareholders. At December 31, 1999, those two shareholders represented 2,834,160 shares (or 8.2%) of the Company's outstanding common stock. Under the shareholder agreement, the Company's founding shareholders are entitled to a cash payment as a result of the sale of the Company's common stock to a third party by either of the two shareholders. The amount of the cash payment is dependent upon the price of the shares sold and is contingent upon their continued employment. Because the amount of their payment is ultimately dependent upon their continuing employment, the Company will recognize compensation expense for their amount of cash payment in the event that an exit payment becomes due under their shareholder agreements. See note 2 for the amount of compensation expense recognized by the Company subsequent to December 31, 1999 as a result of these agreements.

During 1997, a shareholder of MJD contributed the net assets of Holdings, totaling \$150,000, in consideration for 29,000 shares of Class A common stock. Also in 1997, existing subordinated notes payable to stockholders of the Company in the amount of \$923,500 were contributed as additional capital.

In October 1997, an additional 875,880 shares of Class A common stock were issued for proceeds of \$1.5 million.

On March 30, 1998 and April 30, 1998, the Company issued a total of 18,590,800 shares of its Class A common stock to unrelated third parties and members of management for proceeds of approximately \$31.8 million. These proceeds were used to finance the acquisition of Taconic and Ellensburg.

#### **(11) Stock Option Plans**

The Company sponsors the 1995 Plan that covers officers, directors, and employees of the Company. The Company may issue qualified or nonqualified stock options to purchase up to 1,136,800 shares of the Company's Class A common stock to employees that will vest equally over five years from the date of employment of the recipient and are exercisable during years five through ten. In 1995, the Company granted options to purchase 852,800 shares at \$0.25 per share. There were no options granted since 1995.

The per share weighted-average fair value of stock options granted during 1995 was \$0.65 on the date of grant using the Black Scholes option-pricing model. Input variables used in the model included no expected dividend yields, a risk-free interest rate of 6.41%, and an estimated option life of five years. Because the Company was nonpublic on the date of the grant, no assumption as to the volatility of the stock price was made.

In December 1998, the Company adopted the FairPoint Plan for employees of its subsidiary, FairPoint. Under the FairPoint Plan, participating employees are granted options to purchase common stock of FairPoint at exercise prices not less than the fair value of FairPoint common stock at the date of the grant. The FairPoint Plan authorizes grants of options to purchase up to 1,000,000 shares of authorized, but unissued common stock. All stock options have ten-year terms and vest in 25% increments on the second, third, fourth and fifth anniversaries of an individual grant. In the event of a change in control, outstanding options will vest immediately.

Shares issued to employees under the FairPoint Plan are subject to a call option by FairPoint. Under the call option, FairPoint may repurchase those shares held by terminating employees at fair value if the

# **MJD COMMUNICATIONS, INC. AND SUBSIDIARIES**

## **Notes to Consolidated Financial Statements (Continued)**

**December 31, 1999, 1998, and 1997**

### **(11) Stock Option Plans (Continued)**

shares were held by the employee for a minimum holding period of not less than six months. The FairPoint Plan also provides for the reacquisition of common shares by FairPoint in the event of death or disability of the option-holder.

At December 31, 1999, there were options available for grant of 114,500 additional shares under the FairPoint Plan. The per share weighted-average fair value of stock options granted during 1999 was \$0.30 on the date of grant using the Black Scholes option-pricing model. Input variables used in the model included no expected dividend yields, a risk-free interest rate of 5.25%, and an estimated option life of ten years. Because the Company was nonpublic on the date of the grant, no assumption as to the volatility of the stock price was made.

The Company applies APB Opinion No. 25 in accounting for its 1995 and FairPoint Plans and, accordingly, no compensation cost has been recognized for its stock options in the consolidated financial statements. Had the Company determined compensation cost based on the fair value at the grant date for its stock options under SFAS No. 123, the Company's net income for 1999, 1998 and 1997 would not have been significantly reduced.

Stock option activity for 1999, 1998, and 1997 under the 1995 and FairPoint Plans is summarized as follows:

	1995 Plan			FairPoint Plan
	1999	1998	1997	1999
Outstanding at January 1 .....	852,800	852,800	852,800	—
Granted .....	—	—	—	970,500
Exercised .....	—	—	—	—
Canceled or forfeited .....	—	—	—	(85,000)
Outstanding at December 31 .....	<u>852,800</u>	<u>852,800</u>	<u>852,800</u>	<u>885,500</u>
Exercisable at December 31 .....	<u>852,800</u>	<u>781,720</u>	<u>611,160</u>	<u>—</u>

All options granted in 1999 under the FairPoint Plan had an exercise price of \$0.50.

See note 2 for a description of options exercised under the 1995 Plan and the cancellation of all options granted under the FairPoint Plan subsequent to December 31, 1999.

In August 1998, the Company adopted the 1998 Plan. The 1998 Plan provides for grants of up to 5,124,400 nonqualified stock options to executives and members of management, at the discretion of the compensation committee of the Board of Directors. Options vest in 25% increments on the second, third, fourth, and fifth anniversaries of an individual grant. In the event of a change in control, outstanding options will vest immediately. In October 1998, the compensation committee of the Board of Directors approved a grant of 4,664,000 options at an exercise price of \$1.71 per share. During 1999, an additional 214,000 options were granted at an exercise price of \$2.74 per share and 70,000 options were forfeited. At December 31, 1999, a total of 4,808,000 options were outstanding. Pursuant to the terms of the grant, options become exercisable only in the event that the Company is sold, an initial public offering of the Company's common stock results in the principal shareholders holding less than 10% of their original

# MJD COMMUNICATIONS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

December 31, 1999, 1998, and 1997

### (11) Stock Option Plans (Continued)

ownership, or other changes in control, as defined, occur. The number of options that may become ultimately exercisable also depends upon the extent to which the price per share obtained in the sale of the Company would exceed a minimum selling price of \$4.28 per share. All options have a term of ten years from date of grant. The Company will accrue for compensation expense for the excess of the estimated fair value of its common stock over the exercise price of the options when and if a sale of the Company, at the prices necessary to result in exercisable options under the grant, becomes imminent or likely. See note 2 for a description of transactions affecting the 1998 Plan occurring subsequent to December 31, 1999.

### (12) Redeemable Preferred Stock

The following is a summary of the Company's preferred stock:

	Series A preferred		Series B preferred		Series C preferred	
	Shares	Amount	Shares	Amount	Shares	Amount
	(Dollars in thousands)					
Balance at December 31, 1996	1,400,000	\$8,738	—	—	3,661,200	1,952
Conversion of preferred stock	(18,000)	(112)	—	—	—	—
Repurchase of preferred stock	(1,382,000)	(8,626)	—	—	(3,400,880)	(1,822)
Balance at December 31, 1997	—	—	—	—	260,320	130
Repurchase of preferred stock	—	—	—	—	(260,320)	(130)
Balance at December 31, 1998	—	\$ —	—	\$ —	—	\$ —

The Series A preferred stock, Series B preferred stock, and Series C preferred stock not owned by management were purchased and retired in connection with the 1997 recapitalization (see also note 10). The Series C preferred stock owned by management was purchased and retired in 1998.

In conjunction with the issuance of the Series C preferred stock in 1996, the Company issued warrants to purchase 233,790 shares of the Company's Class A common stock. In association with the recapitalization, the Company repurchased warrants to purchase 217,210 shares and contingent warrants to purchase 129,600 shares. There were no contingent warrants outstanding at December 31, 1997, 1998, and 1999. The remaining warrants for 16,580 shares were exercised subsequent to December 31, 1999. (See note 2.)

### (13) Related Party Transactions

During 1998, certain major shareholders of the Company pledged 1,752,000 shares of the Company's common stock as collateral under various loan agreements. Under the terms of the loan agreements, the Company is required, in the event of default by the shareholders, to repurchase the pledged shares for the lesser of (i) 100% of outstanding indebtedness plus accrued and unpaid interest, or (ii) \$3.0 million. The Company has classified \$3.0 million of equity as temporary equity for the value of common stock issued and subject to put options under these arrangements. See note 2 which describes the Company being released from this put obligation subsequent to December 31, 1999.

During 1997, the Company entered into an agreement with MJD Partners, L.P. (Partners), at the time, a major shareholder of the Company. Under the terms of the agreement, Partners provided senior

## **MJD COMMUNICATIONS, INC. AND SUBSIDIARIES**

### **Notes to Consolidated Financial Statements (Continued)**

**December 31, 1999, 1998, and 1997**

#### **(13) Related Party Transactions (Continued)**

management and acquisition services to the Company. Partners was paid \$1,020,000 under this agreement and this expense was classified with corporate expenses in 1997. This agreement was terminated on March 31, 1998, at which time \$225,000 had been paid to Partners during 1998.

The Company has entered into financial advisory agreements with certain equity investors, pursuant to which the equity investors provide certain consulting and advisory services related but not limited to equity financings and strategic planning. During 1999, 1998, and 1997, the Company paid \$400,000, \$250,000 and \$45,833, respectively, in such fees to the equity investors and this expense was classified with corporate expenses. The agreements also provide that the Company will reimburse the equity investors for travel relating to the Company's Board of Directors meetings. During 1999 and 1998, the Company reimbursed the equity investors \$49,627 and \$117,204, respectively, for travel and other expenses. The advisory and consulting fees were increased to \$500,000 per annum to be paid to each of the principal shareholders through December 31, 2006 in connection with the issuance and reacquisition of capital stock as described in note 2.

The Company also has entered into a consulting agreement dated as of July 31, 1997 with an entity controlled by a certain shareholder pursuant to which the shareholder has agreed to provide general consulting and advice to the Company as reasonably requested from time to time. Pursuant to the terms of the agreement, the consulting company is paid an annual fee of \$120,000 in monthly installments plus all of the shareholder's out-of-pocket business expenses up to \$30,000. The term of the agreement is one year, subject to automatic renewal for successive periods of one year each thereafter. The Company incurred expenses of \$132,831 and \$103,306 in 1999 and 1998, respectively, related to this consulting agreement. The agreement was paid by MJD Partners during 1997 and through March of 1998. This agreement was terminated on January 20, 2000.

In 1997, a law firm, in which a partner of such law firm is a shareholder of the Company, was paid a total of \$1,070,132, of which \$38,872 was for general counsel services, which are classified with corporate expenses, \$819,361 for services related to financings, which have been recorded as debt issue costs and equity issue costs, and \$211,899 for new acquisitions, which have been capitalized as direct costs of acquisitions of subsidiaries. In 1998, this same law firm was paid \$2,307,900, of which \$289,156 was for general counsel services, which are classified with corporate expenses, \$1,228,902 for services related to financings, which have been recorded as debt issue costs, and \$789,842 for new acquisitions, which have been capitalized as direct costs of acquisitions of subsidiaries. In 1999, this same law firm was paid \$336,835, of which \$295,084 was for general counsel services, which are classified with corporate expenses and \$41,751 for new acquisitions, which have been capitalized as direct costs of acquisitions of subsidiaries.

See note 2 for related party transactions that occurred subsequent to December 31, 1999.

#### **(14) Supplemental Cash Flow Information**

For the years ended December 31, 1999, 1998, and 1997, the Company paid interest of \$49,071,977, \$24,111,997 and \$8,301,646, respectively.

For the years ended December 31, 1999, 1998, and 1997, the Company paid income taxes of \$7,519,755, \$3,585,977 and \$529,352, respectively.

# MJD COMMUNICATIONS, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements (Continued)

December 31, 1999, 1998, and 1997

### (14) Supplemental Cash Flow Information (Continued)

In conjunction with the recapitalization in 1997, the Company issued subordinated promissory notes for \$3.5 million for the repurchase of the Series A and Series C preferred stock. These subordinated promissory notes were paid during 1998.

### (15) Quarterly Financial Information (Unaudited)

	<u>First quarter</u>	<u>Second quarter</u>	<u>Third quarter</u>	<u>Fourth quarter</u>	<u>Total</u>
	(Dollars in thousands)				
1999:					
Revenue .....	\$32,828	35,496	39,347	39,868	147,539
Earnings (loss) before extraordinary item and minority interest .....	(1,815)	(2,945)	(3,453)	(20,727)	(28,940)
Net loss .....	<u>(1,841)</u>	<u>(2,958)</u>	<u>(3,472)</u>	<u>(20,769)</u>	<u>(29,040)</u>
1998:					
Revenue .....	14,555	23,079	25,642	28,731	92,007
Earnings (loss) before extraordinary item and minority interest .....	634	(428)	(1,517)	(4,088)	(5,399)
Net loss .....	<u>(1,912)</u>	<u>(440)</u>	<u>(1,548)</u>	<u>(4,100)</u>	<u>(8,000)</u>

In 1999, the Company recognized interest expense of approximately \$13.3 million attributable to the purchase of STE warrants discussed in note 9, of which approximately \$11.6 million was recognized during the fourth quarter. In 1999, the Company recognized compensation expense of approximately \$3.4 million attributable to stock appreciation rights discussed in note 7, of which approximately \$2.9 million was recognized during the fourth quarter.

During the first quarter of 1998, the Company recognized a loss on the early retirement of debt of approximately \$4.3 million, which reduced net earnings by approximately \$2.5 million.

### (16) Disclosures About the Fair Value of Financial Instruments

#### *Cash and Cash Equivalents, Accounts Receivable, Accounts Payable, and Demand Notes Payable*

The carrying amount approximates fair value because of the short maturity of these instruments.

#### *Investments*

Investments available-for-sale are carried at their fair value which approximates \$7.3 million at December 31, 1999 (see also note 5).

Non-current investments do not have a readily determinable fair value (not publicly traded). On an annual basis, management determines a fair value of its investments based on the financial performance of the investee, the fair value of similar investments, and in certain instances, based on traditional valuation models used by industry analysts. At December 31, 1999, the Company had investments with a carrying value of approximately \$36.2 million and estimated fair value of approximately \$57.8 million.

**MJD COMMUNICATIONS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 1999, 1998, and 1997**

**(16) Disclosures About the Fair Value of Financial Instruments (Continued)**

***Long-term Debt***

The fair value of the Company's long-term debt is estimated by discounting the future cash flows of each instrument at rates currently offered to the Company for similar debt instruments of comparable maturities. At December 31, 1999, the Company had long-term debt with a carrying value of approximately \$462.4 million and estimated fair value of approximately \$447.6 million.

***Derivative Financial Instruments***

The Company entered into interest rate swaps to manage its exposure to fluctuations in interest rates of its variable rate debt in 1998. The fair value of these swaps was approximately \$1.0 million at December 31, 1999. The fair value indicates an estimated amount the Company would receive if the contracts were cancelled or transferred to other parties.

***Limitations***

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumption could significantly affect the estimates.

**(17) Major Customers**

Compensation for interstate access services is based on reimbursement of costs and an allowed rate of return. This compensation is received from the NECA in the form of monthly settlements. Such compensation amounted to 25.4%, 27.3% and 30.0% of revenues in 1999, 1998, and 1997, respectively. The Company also derives significant revenues from Bell Atlantic, principally from network access and billing and collecting service. Such compensation amounted to 10.9%, 10.4% and 16.3% of revenues in 1999, 1998, and 1997, respectively.

**(18) Reportable Segments**

The Company has two reportable segments: incumbent local exchange carrier (ILEC) operations and competitive local exchange carrier (CLEC) operations. The ILEC operations provide local, long distance and other telecommunications services to customers in rural communities in which competition currently does not exist for local telecommunications services. The CLEC operations provide local and long distance telecommunications services to customers in markets outside of the Company's ILEC markets. The Company began its CLEC operations during 1998, therefore, prior to 1998, the Company's business consisted of one reportable segment.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The Company evaluates performance based on EBITDA. The Company generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current market prices.

The Company's reportable segments are strategic business units that offer similar telecommunications related products and services in different markets. They are managed separately because each segment

**MJD COMMUNICATIONS, INC. AND SUBSIDIARIES**

**Notes to Consolidated Financial Statements (Continued)**

**December 31, 1999, 1998, and 1997**

**(18) Reportable Segments (Continued)**

requires different marketing and operational strategies related to the providing of local and long distance telecommunications services.

The Company utilizes the following information for purposes of making decisions about allocating resources to a segment and assessing a segment's performance:

	<u>ILEC Operations</u>	<u>CLEC Operations</u>	<u>Total</u>
Year ended December 31, 1999:			
Revenues from external customers .....	\$135,890	11,649	147,539
Intersegment revenues .....	—	2,633	2,633
Interest expense .....	50,463	722	51,185
Depreciation and amortization .....	30,876	756	31,632
Income tax (expense) benefit .....	(2,337)	7,952	5,615
EBITDA .....	68,049	(19,887)	48,162
Segment assets .....	485,574	31,297	516,871
Expenditures for segment assets .....	28,293	15,216	43,509
	<u>ILEC Operations</u>	<u>CLEC Operations</u>	<u>Total</u>
Year ended December 31, 1998:			
Revenues from external customers .....	\$ 88,946	3,061	92,007
Intersegment revenues .....	—	516	516
Interest expense .....	27,170	—	27,170
Depreciation and amortization .....	20,034	55	20,089
Income tax benefit .....	267	1,845	2,112
Extraordinary items—loss on early retirement of debt .....	2,521	—	2,521
EBITDA .....	42,099	(4,952)	37,147
Segment assets .....	436,838	5,576	442,414
Expenditures for segment assets .....	10,912	1,521	12,433



**MJD COMMUNICATIONS, INC. AND SUBSIDIARIES**  
**Notes to Consolidated Financial Statements (Continued)**  
**December 31, 1999, 1998, and 1997**

**(18) Reportable Segments (Continued)**

A reconciliation of reportable segment amounts to the Company's consolidated balances for the years ended December 31, 1999 and 1998 is as follows:

	<u>1999</u>	<u>1998</u>
<b>Revenues:</b>		
Total revenue for reportable segments .....	\$150,172	92,523
Elimination of intersegment revenue .....	(2,633)	(516)
Total consolidated revenue .....	<u>\$147,539</u>	<u>92,007</u>
<b>EBITDA to net loss:</b>		
EBITDA .....	\$ 48,162	37,147
Other components of EBITDA:		
Depreciation and amortization .....	(31,632)	(20,089)
Interest expense .....	(51,185)	(27,170)
Income tax expense .....	5,615	2,112
Net loss .....	<u>\$ (29,040)</u>	<u>(8,000)</u>
<b>Assets:</b>		
Total assets for reportable segments .....	\$516,871	442,414
Consolidating and eliminating adjustments .....	(616)	(302)
Consolidated total .....	<u>\$516,255</u>	<u>442,112</u>

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

**PART III**

**ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

The directors and executive officers of the Company are listed below. Executive officers are generally elected annually by the Board of Directors to serve, subject to the discretion of the Board of Directors, until their successors are appointed. There are currently seven members of the Board of Directors.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Daniel G. Bergstein .....	56	Co-Founder, Director
Jack H. Thomas .....	58	Co-Founder, Chairman of the Board of Directors, President and Chief Executive Officer
Eugene B. Johnson .....	52	Co-Founder, Vice Chairman of the Board of Directors, Executive Vice President, Assistant Secretary
Walter E. Leach, Jr. ....	48	Senior Vice President, Chief Financial Officer and Secretary
John P. Duda .....	52	President and Chief Executive Officer—Telecom Group
G. Brady Buckley .....	40	President and Chief Executive Officer of FairPoint Communications Corp.
Timothy W. Henry .....	44	Vice President of Finance, Treasurer and Assistant Secretary
George Matelich .....	43	Director
Frank K. Bynum, Jr. ....	37	Director
Anthony DiNovi .....	37	Director
Kent R. Weldon .....	32	Director

*Daniel G. Bergstein.* Mr. Bergstein is a founder and has been a Director of the Company since 1991. Mr. Bergstein served as Chairman of the Board of Directors of the Company from 1991 until August 1998. Since 1988, Mr. Bergstein has been a senior partner in the New York office of the international law firm Paul, Hastings, Janofsky & Walker LLP, where he is the Chairman of the Firm's National Telecommunications Practice. Mr. Bergstein is a corporate and securities lawyer, specializing in mergers and acquisitions and corporate finance transactions.

*Jack H. Thomas.* Mr. Thomas is a founder and has been a Director of the Company since 1991. He has acted as President and Chief Executive Officer since 1993. Mr. Thomas has served as Chairman of the Board of Directors of the Company since August 1998. From 1985 to 1993, Mr. Thomas was Chief Operating Officer of C-TEC Corporation, a diversified telecommunications concern which at the time owned Commonwealth Telephone Company, a 240,000 access line LEC. From 1982 to 1985, Mr. Thomas served as Vice President, Operations of United Telephone Company of Ohio and was a member of its

board of directors. Prior to his service with United Telephone Company of Ohio, Mr. Thomas worked for nearly twenty years at C&P Telephone (now a Bell System company) in various positions including division manager during the 1976-1982 period.

*Eugene B. Johnson.* Mr. Johnson is a founder and has been a Director of the Company since 1991. Mr. Johnson served as Senior Vice President of the Company from 1993 to 1998 and has served as Executive Vice President since February 1998. Mr. Johnson has served as Vice Chairman of the Company since August 1998. From 1987 to 1993, Mr. Johnson served as President and principal shareholder of JC&A, Inc., an investment banking and brokerage firm providing services to the cable television, telephone and related industries. From 1985 to 1987, Mr. Johnson served as the director of the mergers and acquisitions department of Cable Investments, Inc., an investment banking firm. From 1980 to 1985, Mr. Johnson served as President of a cable television construction and engineering company. Mr. Johnson currently is a director of OPASTCO, the primary industry organization for small independent telephone companies and serves on its membership, education and finance committees.

*Walter E. Leach, Jr.* Mr. Leach has served as Chief Financial Officer and Secretary of the Company since October 1994 and Senior Vice President since February of 1998. From 1984 through September 1994, Mr. Leach served as Executive Vice President of Independent Hydro Developers, where he had responsibility for all project acquisition, financing and development activities. From 1980 to 1984, Mr. Leach served as Vice President, Investor Relations for the Pillsbury Company and served as Treasurer, Assistant Treasurer and Controller for Burger King Corporation. Mr. Leach's career also includes various finance-related positions at Sambo's Restaurants, Inc. and First Union National Bank where he was the Manager of their New York City office.

*John P. Duda.* Mr. Duda has served as Chief Operating Officer of the Company since January 1994 and President and Chief Executive Officer of the Company's Telecom Group since August 1998. From 1993 to 1994, Mr. Duda served as Vice President, Operations and Engineering of Rochester Tel Mobile Communications. From 1985 to 1993, Mr. Duda served as State Vice President—Minnesota, Nebraska and Wyoming and Director of Network Planning and Operations for Pennsylvania and New Jersey for Sprint and from 1970 to 1985 he served in various management positions with C&P Telephone and Bell Atlantic including District Manager—Planning and New Technology for Bell Atlantic Corporation. Mr. Duda is currently on the United States Telephone Association's Board of Directors and serves on its Executive, Regulatory Policy and Midsize Company committees. He also serves on OPASTCO's Separations and Access Committee.

*G. Brady Buckley.* Mr. Buckley has served as President and Chief Executive Officer of FairPoint Communications Corp. since July 1998. From 1996 to 1998, Mr. Buckley served as President of American Telco, Inc., a Houston, Texas based telecommunications firm that was the first company to provide combined local and long distance phone service in Texas. From 1992 to 1996, Mr. Buckley was Vice President of Worldcom and responsible for all New England operations including sales, marketing, finance, operations, and administration. From 1988 to 1992, Mr. Buckley was Vice President of First Phone of New England, a start-up company that provided long distance telecommunications service to business firms in the Northeast. From 1982 to 1987, Mr. Buckley served in several sales and management positions at Sprint.

*Timothy W. Henry.* Mr. Henry has served as Vice President of Finance and Treasurer of the Company since December 1997. From 1992 to December 1997, Mr. Henry served as Vice President/Portfolio Manager at CoBank, ACB, and managed a \$225 million telecommunications loan portfolio, which included responsibility for CoBank's relationship with the Company.

*George E. Matelich.* Mr. Matelich has served as a Director of the Company since July 1997. Mr. Matelich is currently a Managing Director of Kelso, with which he has been associated since 1985.

Mr. Matelich serves on the Boards of Directors of GlobeNet Communications Group Limited and Humphreys, Inc. Mr. Matelich is also a Trustee of the University of Puget Sound.

*Frank K. Bynum, Jr.* Mr. Bynum has served as a Director of the Company since May 1998. He is also a Managing Director of Kelso. Mr. Bynum is a director of CDT Holdings, plc, Citation Corporation, Cygnus Publishing, Inc., Hillside Broadcasting of NC, HCI Direct, Inc., iXL Enterprises, Inc. and 21st Century Newspapers, Inc. Mr. Bynum received a B.A. in History from the University of Virginia.

*Anthony DiNovi.* Mr. DiNovi has served as a Director of the Company since January 2000. He has served as a Managing Director of Thomas H. Lee Partners, L.P. since 1988. Prior to joining Thomas H. Lee Partners, L.P., Mr. DiNovi was in the Corporate Finance Department at Wertheim Schroder & Co., Inc. Mr. DiNovi is a director of Big Flower Holdings, Inc., CelPage, Inc., Columbine JDS Systems, Inc., Eye Care Centers of America Inc., Fisher Scientific International, Inc., LiveWire Systems, LLC, ProcureNet, Inc., Safelite Glass Corp. and Tibbar, LLC. Mr. DiNovi received an A.B. in Social Studies from Harvard College and a M.B.A. from the Harvard Graduate School of Business Administration.

*Kent R. Weldon.* Mr. Weldon has served as a Director of the Company since January 2000. He is a Vice President of Thomas H. Lee Partners, L.P. Mr. Weldon worked at the firm from 1991 to 1993 and rejoined it in 1995. From 1989 to 1991, Mr. Weldon worked at Morgan Stanley & Co. Incorporated in the Corporate Finance Department. Mr. Weldon is a director of Fisher Scientific International, Inc., and Syratech Corporation. Mr. Weldon received a B.A. in Economics and Arts and Letters Program for Administration from the University of Notre Dame and an M.B.A. from the Harvard Graduate School of Business Administration.

#### **ITEM 11. EXECUTIVE COMPENSATION**

The following table sets forth the compensation paid or accrued for services rendered to the Company or its subsidiaries in all capacities, for the year ended December 31, 1999, by the Chief Executive Officer and each of the other four most highly-compensated officers of the Company employed as of December 31, 1999 (the "Named Executive Officers").

## Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long-term Compensation Awards(1)	All other Compensation
		Salary	Bonus	Other Annual Compensation	Number of Securities Underlying Options/SARS	
Jack H. Thomas . . . . . Chief Executive Officer and President	1999	\$330,000	\$180,000	\$ 96,470	—	—
	1998	309,000	150,000	86,851	1,300,000	—
	1997	300,000	82,500	69,128	—	—
Eugene B. Johnson . . . . . Executive Vice President and Assistant Secretary	1999	\$264,000	\$132,000	\$ 76,354	—	—
	1998	240,000	120,000	52,525	1,195,000	—
	1997	240,000	62,000	29,535	—	—
John P. Duda . . . . . President and Chief Executive Officer—Telecom Group	1999	\$150,000	\$ 75,000	\$ 61,265	—	—
	1998	140,000	49,000	41,775	410,000	—
	1997	131,000	31,000	24,018	—	—
Walter E. Leach, Jr. . . . . Senior Vice President, Chief Financial Officer and Secretary	1999	\$150,000	\$ 80,000	\$ 40,806	—	—
	1998	130,000	62,942	34,255	650,000	—
	1997	108,000	32,400	15,598	—	—
G. Brady Buckley . . . . . CEO and President— FairPoint Communications, Inc	1999	\$267,500	\$240,000	\$108,055	300,000(3)	—
	1998(2)	125,000	90,000	0	—	—
	1997	—	—	—	—	—

(1) Share numbers are pro forma for the Stock Split.

(2) Represents six months of compensation.

(3) Represents options to purchase common stock of FairPoint under the FairPoint Plan. These will be converted to options to purchase Class A Common Stock of MJD in April of 2000.

### Stock Option Plan

The Company's Stock Option Plan (the "Plan") was adopted on February 22, 1995. The Plan provides for the grant of options to purchase up to an aggregate of 1,136,800 shares of the Class A Common Stock. The Plan is administered by the Board of Directors, which makes discretionary grants of options to officers or directors and employees of the Company.

Options granted under the Plan may be incentive stock options, which qualify for favorable Federal income tax treatment under Section 422A of the Internal Revenue Code of 1986, or Nonstatutory Stock Options.

The selection of participants, allotment of shares, determination of price and other conditions of purchase of such options is determined by the Board, in its sole discretion. Each option grant is evidenced by a written incentive stock option agreement or nonstatutory stock option agreement dated as of the date of grant and executed by the Company and the optionee. Such agreement also sets forth the number of options granted, the option price, the option term and such other terms and conditions as may be determined by the Board of Directors. As of December 31, 1999, the Board of Directors had granted

options to purchase at \$0.25 per share a total of 852,800 shares of the Class A Common Stock to officers, directors and employees.

Options granted under the Plan are nontransferable, other than by will or by the laws of descent and distribution.

In connection with the Equity Financing, a total of 260,340 options were exercised and the underlying shares were sold.

#### **1998 Stock Incentive Plan**

In August 1998, the Company adopted the MJD Communications, Inc. Stock Incentive Plan (the "1998 Plan"). The 1998 Plan provides for grants to members of management of up to 5,124,400 nonqualified options to purchase Class A Common Stock, at the discretion of the compensation committee of the Board of Directors. Options vest in 25% increments on the second, third, fourth, and fifth anniversaries of an individual grant. In the event of a change in control, outstanding options will vest immediately. In October 1998, the compensation committee of the Board of Directors approved a grant of 4,664,000 options at an exercise price of \$1.71 per share after giving pro forma effect to the Stock Split. During 1999, an additional 214,000 options were granted at an exercise price of \$2.74 per share and 70,000 options were forfeited. At December 31, 1999, a total of 4,808,000 options were outstanding after giving pro forma effect to the Stock Split. Pursuant to the terms of the grant, options become exercisable only in the event that the Company is sold, an initial public offering of the Company's common stock occurs, or other changes in control, as defined, occur. The number of options that may ultimately become exercisable also depends upon the extent to which the price per share obtained in the sale of the Company would exceed a minimum selling price of \$4.28 per share. Options have a term of ten years from date of grant. The Company will accrue as a compensation expense the excess of the estimated fair value of its common stock over the exercise price of the options when and if a sale of the Company, at the prices necessary to result in exercisable options under the grant, becomes imminent or likely.

In connection with the Equity Financing, 40,600 options were exercised and the underlying shares were sold.

In December 1998, FairPoint adopted the FairPoint Communications Corp. Stock Incentive Plan (the "FairPoint Plan") for its employees. Under the FairPoint Plan, participating employees may be granted options to purchase common stock of FairPoint at exercise prices not less than the fair value of FairPoint common stock at the date of the grant. The FairPoint Plan authorizes grants of options to purchase up to 1,000,000 shares of authorized, but unissued common stock. Options vest in 25% increments on the second, third, fourth, and fifth anniversaries of an individual grant. In the event of a change in control, outstanding options will vest immediately. Shares issued to employees under the FairPoint Plan are subject to a call option by FairPoint. Under the call option, FairPoint may repurchase those shares held by terminating employees at fair value if the shares were held by the employee for a minimum holding period of not less than six months. The FairPoint Plan also provides for the reacquisition of common shares by FairPoint in the event of death or disability of the option-holder. During 1999, the compensation committee approved grants of 970,500 options. Of these grants, 85,000 options were forfeited. No options were granted under the FairPoint Plan during fiscal year 1998. All options granted in 1999 under the FairPoint Plan had an exercise price of \$0.50.

In February 2000, the Board approved a conversion of all of the FairPoint options to MJD options. The conversion, which is expected to be completed in April, 2000, will result in 885,500 options to purchase common stock of FairPoint being converted into an aggregate of 1,618,820 options to purchase Class A Common Stock with an exercise price of \$3.28 per share. Upon completion of the conversion, the FairPoint Plan will be terminated.

## Warrants

Certain members of management were issued warrants to purchase Class A Common Stock in connection with their purchases of shares of Series C Preferred Stock of the Company in 1996. The Company has since redeemed all of the outstanding Series C Preferred Stock. The warrants were exercisable into 16,580 shares of Common Stock at an exercise price of \$0.01 per share. On January 20, 2000, the warrants were exercised and the underlying shares were sold in connection with the Equity Financing.

## Aggregated Option/SAR Exercises in Last Fiscal Year and FY-End Option/SAR Values

The following table sets forth the information with respect to the Named Executive Officers concerning the exercise of options during fiscal year 1999, the number of securities underlying options at the 1999 year end and the year end value of all unexercised in-the-money options held by such individuals (after giving pro forma effect to the Stock Split).

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options/SARs At Fiscal Year-End (#) Exercisable/Unexercisable	Value of Unexercised In-The-Money Options/SARs at Fiscal Year-End (\$) Exercisable/Unexercisable(1)
Jack H. Thomas .....	—	—	1,586,260/1,300,000	\$18,508,879/14,825,200
Eugene B. Johnson .....	—	—	1,412,320/1,195,000	16,424,958/13,627,780
Walter E. Leach, Jr. ....	—	—	795,160/650,000	10,971,431/7,412,600
John P. Duda .....	—	—	626,500/410,000	9,157,452/4,675,640
G. Brady Buckley .....	—	—	300,000/300,000(2)	7,194,000/7,194,000

- (1) Represents the difference between the exercise price and the fair market value of the Company's Class A Common Stock at December 31, 1999.
- (2) Represents options to purchase common stock of FairPoint under the FairPoint Plan. These will be converted to options to purchase Class A Common Stock of MJD in April of 2000.

In connection with the Equity Financing, 12,440 warrants and 300,940 options to purchase Class A Common Stock were exercised and the underlying shares were sold for aggregate proceeds of \$3,975,836. In connection with this transaction, the Board approved the acceleration of the vesting and exercise of 40,600 options owned by Mr. Leach. In addition, Mr. Leach and Mr. Duda also received an aggregate of \$1,165,000 from certain stockholders of the Company in satisfaction of a portion of such stockholders' stock appreciation rights obligations to Messrs. Duda and Leach.

## Employment Agreements

In January 2000, the Company entered into employment agreements (the "Employment Agreements") with each of John P. Duda, Jack H. Thomas, Eugene B. Johnson and Walter E. Leach, Jr. (each an "Executive" and, collectively, the "Executives"). Each of the Employment Agreements provides for an employment period from January 20, 2000 until December 31, 2003 and provides that upon the termination of the Executive's employment due to a Change of Control (as defined below), the Executive is entitled to receive from the Company in a lump sum payment an amount equal to such Executive's base salary as of the date of termination for a period ranging from twelve months to twenty-four months. For purposes of the previous sentence, a "Change of Control" shall be deemed to have occurred if: (a) certain stockholders of the Company no longer own, either directly or indirectly, shares of capital stock of the Company entitling them to 51% in the aggregate of the voting power for the election of the directors of the Company, as a result of a merger or consolidation of the Company, a transfer of capital stock of the

Company or otherwise, or (b) the Company sells, assigns, conveys, transfers, leases or otherwise disposes of, in one transaction or a series of related transactions, all or substantially all of its property or assets to any other person or entity. In addition, the Company has agreed to maintain the Executives' long term disability and medical benefits for a similar period. In the event that any Executive's employment with the Company is terminated without cause and not as a result of a Change of Control, such Executive is entitled to receive a lump sum payment from the Company in an amount equal to such Executive's base salary for a period ranging from six months to twelve months and is also entitled to long term disability and medical benefits for a similar period. In the event that any Executive's employment is terminated for cause or by Executive without good reason, such Executive is not entitled to any benefits pursuant to the Employment Agreements.

## ITEM 12. SECURITY OWNERSHIP AND BENEFICIAL MANAGEMENT

The following table sets forth information regarding beneficial ownership of the Company's Class A Common Stock as of March 15, 2000 for (i) each of the Named Executive Officers and each director of the Company, (ii) all officers and directors of the Company as a group, and (iii) each stockholder of the Company who beneficially owns 5% or more of the Company's Class A Common Stock.

	Number of Shares Beneficially Owned (1)	Percent of Outstanding Shares (1)
<b>Executive Officers and Directors:</b>		
Daniel G. Bergstein (2) .....	2,155,140	18.7%
Jack H. Thomas (3) .....	1,757,600	14.9%
Eugene B. Johnson (4) .....	640,380	5.5%
John P. Duda (5) .....	95,060	0.8%
G. Brady Buckley .....	7,640	0.1%
Walter E. Leach, Jr. (6) .....	0.0	0.0%
George E. Matelich (7) .....	5,655,768	49.1%
Frank K. Bynum, Jr. (7) .....	5,655,768	49.1%
Anthony DiNovi (1) .....	0.0	0.0%
Kent R. Weldon (1) .....	0.0	0.0%
All Executive Officers and Directors as a group (10 stockholders) .....	10,311,588	58.0%
<b>5% Stockholders:</b>		
Kelso Investment Associates V, L.P. and Kelso Equity Partners V, L.P. (1)(7) .	5,655,768	49.1%
320 Park Avenue, 24 <sup>th</sup> Floor		
New York, New York 10022		

- (1) Unless otherwise indicated below, the persons and entities named in the table have sole voting and sole investment power with respect to all shares beneficially owned by them, subject to community property laws where applicable. The percentage of beneficial ownership is based on 11,523,308 shares of Class A Common Stock outstanding as of February 29, 2000

As of February 29, 2000, THL owned 21,461,720 shares of Series D Preferred Stock and Kelso Investment Associates V, L.P. ("KIAV") and Kelso Equity Partners V, L.P. ("KEPV") owned 11,289,356 and 1,254,372 shares of Class B Common Stock, respectively. Each share of Series D Preferred Stock and each share of Class B Common Stock will be automatically converted into one share of Class A Common Stock upon the receipt of all required regulatory approvals. The Company does not expect to receive all such regulatory approvals within the next 60 days.

- (2) Includes 2,155,140 shares owned by JED Communications Associates, Inc., a corporation owned 100% by Mr. Bergstein and his immediate family.



- (3) Includes 284,200 shares of Class A Common Stock issuable upon exercise of options that are either currently exercisable or exercisable during the next 60 days. Does not include 1,300,000 shares of Class A Common Stock issuable upon exercise of options that are not currently exercisable or exercisable during the next 60 days.
- (4) Includes 213,200 shares of Class A Common Stock issuable upon exercise of options that are either currently exercisable or exercisable during the next 60 days. Does not include 1,195,000 shares of Class A Common Stock issuable upon exercise of options that are not currently exercisable or exercisable during the next 60 days.
- (5) Includes 95,060 shares of Class A Common Stock issuable upon exercise of options that are either currently exercisable or exercisable during the next 60 days. Does not include 410,000 shares of Class A Common Stock issuable upon exercise of options that are not exercisable during the next 60 days.
- (6) Does not include 609,400 shares of Class A Common Stock issuable upon exercise of options that are not currently exercisable or exercisable during the next 60 days.
- (7) Includes 5,138,370 shares of Class A Common Stock owned by KIAV and 517,398 Class A shares of Common Stock owned by KEPV. KIAV and KEPV, due to their common control, could be deemed to beneficially own each other's shares, but each disclaims such beneficial ownership. Joseph S. Schuchert, Frank T. Nickell, Thomas R. Wall, IV, George E. Matelich, Michael B. Goldberg, David I. Wahrhaftig, Frank K. Bynum, Jr. and Philip E. Bewey may be deemed to share beneficial ownership of shares of Class A Common Stock owned of record by KIAV and KEPV, by virtue of their status as general partners of the general partner of KIAV and as general partners of KEPV. Messrs. Schuchert, Nickell, Wall, Matelich, Goldberg, Wahrhaftig, Bynum and Bewey share investment and voting power with respect to securities owned by KIAV and KEPV, but disclaim beneficial ownership of such securities. The business address for each such person and KIAV and KEPV is c/o Kelso & Company, 320 Park Avenue, 24th Floor, New York, New York 10022.

### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

#### **Financial Advisory Agreements**

In connection with the Equity Financing, the Company entered into a Management Services Agreement with THL Equity Advisors IV, LLC, ("THL Advisors") dated as of January 20, 2000 and an Amended and Restated Financial Advisory Agreement dated as of January 20, 2000 with Kelso, pursuant to which THL Advisors and Kelso provide certain consulting and advisory services related, but not limited to, equity financings and strategic planning. Pursuant to these agreements, the Company pays to each of THL Advisors and Kelso annual advisory fees of \$500,000 payable on a quarterly basis until December 31, 2006. In connection with the Equity Financing, the Company terminated its financial advisory agreement with Carousel and the original financial advisory agreement with Kelso. The Company paid advisory fees to Carousel and Kelso of \$200,000 and \$200,000 each in 1999.

#### **Consulting Agreement**

On January 20, 2000, the Company terminated a consulting agreement dated as of July 31, 1997 by and between the Company and an entity controlled by Daniel G. Bergstein pursuant to which Mr. Bergstein agreed to provide general consulting and advice to the Company as reasonably requested from time to time. During 1999, the Company paid consulting fees under the consulting agreement of \$132,831.

### **Legal Services**

Daniel G. Bergstein, a senior partner of Paul, Hastings, Janofsky & Walker LLP ("Paul Hastings"), is a Director of the Company and a significant stockholder. Paul Hastings regularly provides legal services to the Company. For the year ended December 31, 1999, Paul Hastings was paid approximately \$336,835 by the Company for legal services.

### **Stockholders Agreement and Registration Rights Agreement**

In connection with the Equity Financing, the Company and its stockholders entered into a Stockholders Agreement dated as of January 4, 2000 (the "Stockholders Agreement") which contains certain provisions, including but not limited to: (i) the designation of members to the Board of Directors of the Company (including, initially, two members to be designated by THL, two members by Kelso and upon the receipt of all required regulatory approvals, the remaining members to be designated jointly by THL and Kelso), (ii) certain restrictions on transfers of shares by the stockholders of the Company, (iii) the requirement that stockholders take certain actions upon the approval by a majority of the stockholders in connection with an initial public offering or a sale of the Company, (iv) the requirement of the Company to sell shares to the stockholders under certain circumstances upon authorization of an issuance or sale of additional shares, (v) certain of the participation rights of certain stockholders in connection with a sale of shares by other stockholders, and (vi) the right of the Company to purchase all (but not less than all) of the shares of a stockholder in the event of resignation or termination of employment or death or disability. The Stockholders Agreement also provides that the Company must obtain consent from THL and Kelso in order for the Company to incur debt in excess of \$5 million.

The Company and its stockholders entered into a Registration Rights Agreement dated as of January 20, 2000 (the "Registration Rights Agreement") pursuant to which the stockholders have the right in certain circumstances and, subject to certain conditions, to require the Company to register shares of Class A Common Stock held by them under the Securities Act. Under the Registration Rights Agreement, except in limited circumstances, the Company is obligated to pay all expenses in connection with such registration.

In connection with the execution of the Stockholders' Agreement and the Registration Rights Agreement, the Company terminated its previous Stockholders' Agreement and Registration Rights Agreement, each dated July 31, 1997.

### Purchase of Class A Common Stock by Management

In January 2000, 100,160 shares of the Company's Class A Common Stock were purchased by certain members of management for \$1,313,749 as follows:

<u>Name of management personnel</u>	<u>Per Share Price(a)</u>	<u>Number of Shares (b)</u>	<u>Aggregate Purchase Price</u>
Richard Blumhagen .....	\$13.1165	800	\$ 10,493.20
Brady Buckley .....	\$13.1165	7,640	\$100,210.06
Ryan Cure .....	\$13.1165	1,600	\$ 20,986.40
Whit Edwards .....	\$13.1165	8,000	\$104,932.00
Patrick Eudy .....	\$13.1165	5,700	\$ 74,764.05
Dan Fine .....	\$13.1165	1,600	\$ 20,986.40
Leon Frazier .....	\$13.1165	1,100	\$ 14,428.15
Ross Fritz .....	\$13.1165	800	\$ 10,493.20
Robert Gniadek .....	\$13.1165	800	\$ 10,493.20
Mike Harrington .....	\$13.1165	800	\$ 10,493.20
Timothy Henry .....	\$13.1165	800	\$ 10,493.20
Lisa Hood .....	\$13.1165	1,500	\$ 19,674.75
Tom Iachetta .....	\$13.1165	800	\$ 10,493.20
Steve Lagasee .....	\$13.1165	800	\$ 10,493.20
Jack Morfield .....	\$13.1165	2,000	\$ 26,233.00
Patrick L. Morse .....	\$13.1165	2,000	\$ 26,233.00
Peter Nixon .....	\$13.1165	3,200	\$ 41,972.80
Jeff Tousa .....	\$13.1165	2,000	\$ 26,233.00
Dana Twombly .....	\$13.1165	22,000	\$288,563.00
Dan Yamin .....	\$13.1165	800	\$ 10,493.20
Daren Yamin .....	\$13.1165	800	\$ 10,493.20
Neil Torpey .....	\$13.1165	34,620	\$454,093.23

(a) The price per share has been adjusted on a pro forma basis to reflect the Stock Split.

(b) The number of shares have been adjusted on a pro forma basis to reflect the Stock Split.

**PART IV**

**ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K**

**MJD COMMUNICATIONS, INC.**

**Independent Auditors' Report and  
Schedule**

**Form 10-K Securities and Exchange Commission  
December 31, 1999, 1998, and 1997  
(With Independent Auditors' Report Thereon)**

**Independent Auditors' Report**

**The Board of Directors  
MJD Communications, Inc.:**

Under the date of March 1, 2000, we reported on the consolidated balance sheets of MJD Communications, Inc. and subsidiaries as of December 31, 1999 and 1998 and the related consolidated statements of operations, stockholders' equity (deficit), comprehensive loss and cash flows for each of the years in the three-year period ended December 31, 1999. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedule II. This consolidated financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this consolidated financial statement schedule based on our audits.

In our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

**/s/ KPMG LLP**

**March 1, 2000  
Lincoln, Nebraska**